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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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A Brighter Employment Picture . . .

With the release of the fiscal year 1985 Federal budget and the Congressional testimony of Federal Reserve Chairman Paul A. Volcker, the financial markets were hit by a one-two punch from which they are still attempting to recover. Once again, concern is mounting that the fundamental incompatibility of huge budget deficits and an inflation-fighting monetary policy will soon be sending interest rates higher—prospects sufficiently bleak to send the stock market into a tailspin and sow disarray in the bond markets. However, moving away from Wall Street to Main Street, some of the news would appear to be brighter.

Perhaps the brightest is the fact that the rapid pace of the current U.S. business recovery has led to a significant improvement in the employment situation. A 13-month hiring spree has added 4.2 million jobs and reduced the civilian unemployment rate by 2.7 percentage points from its postwar high of 10.7 percent recorded in December, 1982. At eight percent in January, the jobless rate now stands at its lowest level since October, 1981.

Never before have so many people been working in the U.S. What is more, the employment rate—the proportion of working-age population whose labor is being utilized—is almost two percentage points above its postwar average. This call back to work has fattened the wallets and boosted the morale of many people. The wages and salary component of personal income increased 8.3 percent in the 12 months ending December, 1983, compared with an increase of just four percent a year earlier, while consumers' confidence in January soared to the highest level in five years.

The 2.7 percentage-point plunge in the jobless rate since the end of the last recession is the second sharpest reduction in the unemployment rate for any comparable period of a business expansion in postwar history. It resulted from the combination of a strong increase in civilian employment and unusually sluggish growth in the number of entrants into the labor force. Civilian employment has increased 4.2 percent since the end of the last recession compared with an average increase of three percent in the same period following the seven previous postwar recessions.

However, not all of the reduction in the jobless rate can be attributed to increased employment alone. It can also be traced to the unusually slow growth in the labor force. Defined as people who hold jobs and those who don't but would like to, the labor force grew 1.2 percent in 1983—the slowest annual rate of increase in two decades. This contrasts sharply with the 2.7 percent average annual rate of growth in the labor force in the 1970s, when the postwar baby-boom generation reached working age and entered the labor force at the same time that a growing number of women sought work outside their homes.

The restrained growth of the labor force in 1983 reflected primarily changes in the demographic structure of the American population. The proportion of young people reaching working age declined, while female labor-force participation slowed because many women now in their thirties, who had postponed childbearing to develop careers, decided to have families.

But there was another factor that affected growth in the labor force in 1983: A record number of unemployed workers gave up looking for jobs. Usually, discouraged workers who stop looking for employment during economic downturns, re-enter the labor force in hopes of finding jobs when business conditions improve. Their re-entry to the labor force tends to inhibit the decline in the unemployment rate in the early stages of economic recovery. By the end of 1983, however, the number of discouraged workers edged down by only 356,000 from the over 1.8 million posted at the depth of the last recession.

. . . Benefits Many Industries . . .

Two interest rate-sensitive sectors—durable goods manufacturing and construction—which were particularly hard-hit during the recession, have been big job gainers during the recovery. The construction sector expanded its work force by

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almost 12 percent, while employment in manufacturing rebounded 6.5 percent from its recession low. Not only has this gain reversed the largest decline in manufacturing employment in the postwar period, but it also contributed 37 percent to the total gain in payroll employment since the recovery began. The auto industry increased employment on its assembly lines by 26 percent. Such industries associated with autos and construction as rubber, lumber, wood and furniture have also posted substantial gains. Needless to say, employment in the service-producing sector, which posted gains even throughout the recession, continued to expand.

These statistics, however, do not reveal many of the problems still besetting Smokestack America. Factories have restored only 1.2 million of the three million jobs lost since 1979 when their payrolls peaked. Plant shutdowns in hard-hit industries have permanently displaced many workers. In addition, many factory jobs have disappeared with the introduction of such labor-saving technology as computerized operations, electronic controls and robotics. The auto industry, for example, employs today only about three quarters of its former work force, while the primary metals sector has pared its payrolls by one third. Although as recently as 1979, manufacturing generated more

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/1/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	160.550	+ .593	+19.044
Loans to Depository Inst.	.677	+ .172	+ .294
Float	.817	– .622	– 1.327
Total Reserve Bank Credit	171.103	+ .334	+17.323
Treasury Deposits with Federal Reserve Banks	7.180	+ 1.928	+ 4.749
Currency Outside Banks	145.789	– .328	+12.403
Member Bank Reserves:			
Required	38.858	– .814	– 1.626
Excess (Deficiency)	.432	– .148	+ .011
Total Reserves Held	39.290	– .962	– 1.615
Net Borrowed Reserves	.133	+ .310	+ .419
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.407	+ .674	+ .219

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1	524.6	+ 4.8‡	+ 8.4‡
M2 (January '84)	2,191.9	+ 5.6	+ 9.0
M3 (January '84)	2,614.5	+ 8.0	+ 8.8
Domestic Nonfinancial Debt (3rd Q'83)	5,072.0	+ 11.2	+ 10.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 2/10/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	9.00%	9.05%	9.05%
* Federal Agencies	9.20	9.40	9.80
* Project Notes—Taxfree (46% Taxable Equivalent)	9.17	9.44	10.19
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	9.45	9.65	10.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.25%	Mar.	9.30%
15- 29 days	9.35	Apr.	9.30
30- 59 days	9.35	May	9.30
60- 89 days	9.30	Jun.	9.30
90-179 days	9.20	Jul.	9.30
180-239 days	9.00	Aug.	9.27
240-270 days	9.00		

‡Industrial Paper—Prime			
30- 89 days	9.30%	†Federal Funds Effective Rate	9.45%
90-120 days	9.25		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'83	$ 3,432	$ 3,362	$ 3,110
Gross National Product (1972 Dollars)*	4th Q'83	$ 1,571	$ 1,553	$ 1,481
Percent Change, Annual Rate	4th Q'83	4.5	7.6	– 1.3
Change in Consumer Prices (new series)*	Dec '83	3.6%	3.6%	– 3.6%
Change in Producer Prices*	Jan '84n	7.2%	2.4%	– 13.2%
Civilian Employment (Thousands of Persons)†	Jan '84	103,190	102,941	99,154
Unemployment as % of Civilian Labor Force†	Jan '84	8.0%	8.2%	10.4%
Personal Income*	Dec '83	$ 2,857	$ 2,833	$ 2,645
Leading Indicators Composite Index (1967=100)†	Dec '83	162.9	161.9	140.9
Industrial Production Index (1967=100) †	Dec '83	156.9	156.1	135.2
Net Change in Consumer Installment Credit †	Nov '83	$ 4.67	$ 4.89	$ 2.02
U.S. Merchandise Trade Balance †	Dec '83	–$ 6.30	–$ 7.40	–$ 3.66
Plant and Equipment Expenditures*	1st Q'84	$323.07(a)	$321.60(a)	$293.03
Private Housing Starts (Thousands of Units)*	Dec '83	1,667	1,755	1,280
New Construction Expenditures*	Dec '83	$ 275.0	$ 275.5	$ 240.2
Total Business Inventories †	Nov '83	$ 518.0	$ 516.0	$ 513.9
Total Business Sales †	Nov '83	$ 387.2	$ 382.2	$ 338.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

jobs than any other sector of the U.S. economy, today such industries as services or trade employ more people than factories.

. . . But Problems Still Persist

Industries as diverse as health services and security and commodities brokers have posted healthy gains in recent years. The disparity between the growth of employment in manufacturing and services shows up in industry unemployment rates as well. For example, whereas the primary metals and food processing industries have jobless rates of 13.7 and 13.6 percent respectively, communications and utilities have only 2.4 percent of their work force unemployed, and the financial sector, 4.2 percent.

Although total employment is at a record level, nine million Americans still remain unemployed. In addition, 1.5 million persons have given up looking for employment because they do not believe that opportunities for finding suitable jobs exist. To be sure, the progress against unemployment has been substantial, but America still has a long way to go. After all, just a few years ago an eight percent unemployment rate was a cause for concern—not a reason to rejoice. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (1/25/84)	142,903	– 636	–29,880
New York City (1/25/84)	28,617	– 625	–14,464
Commercial Paper (1/25/84)	185,844	+ 554	+19,279

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/25/84)	220,257	– 775	NA*
New York City (1/25/84)	57,825	– 226	NA*

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/25/84)	569,679	– 1,800	NA*
New York City (1/25/84)	127,835	– 1,107	NA*

*Year ago data not available due to definitional changes.

Financial Markets

	Friday 2/10/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	9.40%	+ .43	+ 1.02
180-Day Bills†	9.72	+ .48	+ 1.05
Longest Bills†	9.90	+ .39	+ .90
Recent Issues:			
10⅝s 1/31/86	10.71	+ .16	
11¼s 12/31/87	11.28	+ .18	
11¾s 11/15/93	11.80	+ .20	
12s 8/15/13	11.90	+ .20	
Municipals:			
Bond Buyer–20 Bond Index* (2/9/84)	9.56%	+ .05	– .16
Blue List Total ($ Million)	$1,496	+ $205	+ $509
30-Day Visible Supply ($ Million)	$2,294	+ $599	+ $171
Total	$3,790	+ $804	+ $680
Corporates:			
Moody's Aa Composite (2/9/84)	12.58%	– .04	– .11
30-Day Visible Supply ($ Million)	$1,037	+ $225	+ $627
Stocks:			
Dow-Jones Averages:			
Industrials	1,160.70	– 36.33	+ 72.95
Transportation	514.55	– 20.82	+ 34.80
Utilities	127.17	– 4.72	+ 3.28
65 Stocks	456.91	– 15.84	+ 28.17
Standard and Poor's 500 Stocks	156.30	– 4.52	+ 8.80
N.Y.S.E. Composite Index	90.07	– 2.91	+ 4.97
N.Y.S.E. Avg. Daily Vol. for Week (000's)	106,924	– 2,058	+ 21,764

* 46% Taxable equivalent 17.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 2/10/84	Week Ago
Overnight	9.44%	9.63%
1 month	9.69	9.63
3 month	9.81	9.75
6 month	9.94	9.94
1 year	10.31	10.31
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	11.50%	11.40%
Long Term (7 to 15 yrs.)	11.70	11.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/10/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01778	56.25
Canada	.8021	1.2467
Denmark	.09990	10.0100
France	.1183	8.4515
Germany	.3641	2.7468
Italy	.0005915	1690.50
Japan	.004267	234.35
Mexico	.005988	167.00
Netherlands	.3229	3.0970
Switzerland	.4481	2.2315
U.K.	1.4150	.7067

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